

## INTRODUCTION

The food & beverage industry is a multi-billion dollar business encompassing bars, nightclubs, restaurants, hotels, cruise lines, and casinos among others. Because of the nature of the business it is one of the most vulnerable environments in which theft can occur, leaving owners and shareholders susceptible to major losses and many times, bankruptcy.

This industry is notoriously risky with a large portion of new establishments going out of business within just the first year. When entrepreneurs set up a new restaurant, club, or bar, much attention is paid to the ambiance, menu, and marketing. Often the most important factor concerning the survival of the business is overlooked or grossly underestimated.

No matter how good the food, or inviting the atmosphere, the business will certainly suffer if the incoming receipts do not always end up where they are supposed to. Failing to prevent loss is one of the biggest mistakes one can make in this business.

Theft can go undetected for an extended period of time in many establishments because owners and managers often:

- Put too much trust in their employees.
- Have a false sense of security with their modern registers and surveillance systems.

Many times it is the most trusted employee who is skimming large amounts of cash from the business. Also, no matter how advanced the camera and register systems are there is always a way around them. Furthermore, many managers are not properly trained on these systems and use them at a very basic level.

This training course is designed to improve your management skills so that you can pinpoint areas of weakness in your operation that leave the business vulnerable to theft.

[What you will learn here includes –](#)

- What motivates employees to steal
- What methods they employ
- Why newer systems can still leave your business vulnerable
- How to adjust your procedures to discourage and prevent theft

## **CHAPTER 1 - Why loss is such a big problem**

Many employees feel little loyalty to management or owners and sometimes can carry resentments for an extended period of time because of real or perceived injustices. These emotions make it easy for employees to justify theft. People who are normally quite ethical in their day-to-day dealings with friends, family, and coworkers can be the very ones stealing the most money from their employer.

A recent survey revealed that:

- 13% of American workers steal at every opportunity.
- 21% will never steal, no matter the situation.
- The remaining 66% may or may not steal, depending on two things:
  - Are the 13% getting caught?
  - And, if so, does anything of consequence happen to them?

### **Problems specific to this industry**

The Food & Beverage industry is unique compared to other businesses in that:

#### **1. It is primarily cash based.**

Other transaction based businesses such as the retail industry are moving more and more toward credit card sales. Bars and restaurants, however, still see more cash sales on average than credit or debit card sales. This creates endless opportunities for theft.

#### **2. Inventory is difficult to track.**

In the retail industry tracking inventory is a fairly straightforward task. Managers can count whatever widgets they sell and find out what product is missing or damaged.

In a bar or restaurant however, inventory control is a daunting task. A bottle of vodka for instance can yield anywhere from 15 to 30 drinks depending on a number of factors including:

- What types of drinks are poured from the bottle (i.e. martinis, shots, mixed drinks)
- How stiff the bartenders make their drinks
- How many mistaken or unsatisfactory drinks are thrown out and remade

#### **Beer**

Though bottled beer is fairly simple to track, tap beer is much more difficult. Bartenders often let the beer overflow to garner a perfect head.

On many occasions there are problems with the CO<sub>2</sub> pressure levels or with the temperature of the cooler. These problems can cause tap beer to foam excessively. When this happens, bartenders have to pour off large amounts of foam before the beer settles down and can be poured into a glass for sale. This runoff is often times unaccounted for, which causes inventory inaccuracies.

### Wine

Wine is difficult to track because of variances in pouring. Some bartenders fill the glass nearly all the way up while others engage the standard 5 ounce pour. Also, opened bottles with unsold wine usually go bad after a day or two and must be discarded. Even if bartenders are required to log down this loss they can easily claim more was discarded than actually was leaving product available for use in theft.

### Soft Drinks

Soft drinks are even more difficult to track. Usually soda is dispensed from syrup boxes. Very few managers have an idea of how many sodas a box of syrup can yield. Furthermore it is next to impossible to determine how much soda was used in direct soft drink sales and how much was used to mix cocktails. In most restaurants and bars staff members are usually permitted to drink sodas freely without having to ring them up as employee drinks, which further complicates soda tracking.

Because of this grey area servers can pocket the proceeds for soda sales and it is highly unlikely the depleted syrup levels would be identified as theft through inventory examination.

Many bars and restaurants have poor inventory procedures if any at all. These are the businesses most vulnerable to long term embezzlement. Often times establishments that do have inventory procedures lump their entire product expenses into one sum called liquor cost.

They have no idea how much was derived from beer sales, from wine sales, or from liquor sales. In this type of environment it is fairly simple for bartenders and servers to give away product in return for bigger tips or to pocket the proceeds from sales. A vigilant manager however, would be aware that, for example, in the month of March:

- 42.5 cases of Brand X beer were rung through the register.
- 50 cases were on hand at the beginning of the month.

He would then expect know to expect 7.5 cases to be left in storage.

If 2 cases of Brand X beer are remaining then he would be alerted to questionable activity and could conduct an in-depth investigation.

### Food

Food inventory is just as difficult to track. In many restaurants it is very difficult to determine exactly –

- How many steaks are overcooked or sent back?
- How much fish goes off and must be thrown out?
- How much soup was sold and how much was thrown out at the end of the shift?
- How many side salads were produced by the waiters.

Even if cooks are required to log this information they can easily write down more than was actually discarded leaving product available for use in theft.

### **3. High staff turnover**

This industry is unique in that there is a very high turnover compared to most other business. Many people use the service industry as a stepping stone while they go to college or try to discover a career path. Few people start out in the business with the intention of doing it for the rest of their lives. Servers and bartenders come and go frequently.

Because of the ease of entry into the field (no degree or special licenses required) there is an endless supply of human resources. Managers know that a replacement server is just a phone call or help-wanted ad away. Therefore staff are aware they are easily replaced which can motivate the crooked ones to steal as much as possible while they have the opportunity.

### **4. Lack of serious deterrent.**

When an accountant is caught embezzling money from the company he or she usually faces serious criminal charges and can do time in white-collar prison. When bartenders and waiters are caught stealing however, the usual punishment isn't any more severe than simple termination. Very rarely are they prosecuted.

Because the theft happens in smaller increments, but over an extended period the servers can get away with stealing much more than the average crooked accountant. If managers discover or suspect server theft they are reluctant to allow it to continue in order to build a case against the offender. They just want them out and so the thief ends up getting away with little more than a slap on the wrist. They pick up and find a new establishment in which to continue their shady activity.

## **Opposing interests**

The nature of the management/employee relationship creates an “us-against-them” sentiment which can serve as motivation for employees to steal. It is a manager’s responsibility to keep operating expenses as low as possible. As a result, staff can lose relied upon shifts or get sent home early when they need the hours the most. Cutting hours leads to a loss of pay and even crucial benefits such as health insurance.

Furthermore, it is very rare for non-union employees to receive a raise in this business because managers are fully aware that servers are in it for the tips and will continue to work at minimum wage indefinitely.

## **MINIMUM WAGE**

In some states the minimum wage for servers and bartenders is less than a third of the federal minimum wage. Often times, bartenders and servers receive a paycheck for zero dollars because their hourly rate is not enough to cover taxes. These factors combined can create financial insecurity which is added incentive for servers to skim money when the opportunities arise.

## **Increasing regulation**

In the good old days tips were rarely taxed if at all. Increasing IRS regulations have recently begun, which impose a new burden on people in the service industry. They are required to report their tip income and if they fail to do so then the company they work for is obligated to report it for them.

Any credit card tips received are fully taxed because of the paper trail, and a certain percentage of cash sales are also taxed because it is understood that guests usually tip anywhere from 10-20%. It has reached a point where servers tipping out bartenders, busboys, and food-runners require those workers to sign off on the tip out in order to transfer the tax liability.

In the following chapters we will reveal the most current methods unscrupulous bar and restaurant employees use to pilfer your profits. Some of them may seem obvious to you, however the one trick you are unaware of may be the very one that will put you out of business.

## APPENDIX

### Sample form

XYZ Bar and Restaurant

I, \_\_\_\_\_, hereby acknowledge that I have been informed of the company policy described below regarding theft and misappropriation of company property.

#### POLICY

Misappropriation of company property and/or monies of any kind will result in termination and prosecution. Behaviors that constitute theft include, but are not limited to –

1. Failing to ring in products sold.
2. Taking cash that is meant to be rung up.
3. Giving away product in return for favors or tips.
4. Abusing any coupon promotion.
5. Abusing the comp tab system.
6. Removing product from company premises.
7. Inflating guests' tabs artificially.
8. Reducing guests' tabs artificially.
9. Adding gratuity to guests' tabs without their knowledge or consent.
10. Producing any product without it first being entered into the system.

I understand that theft or misappropriation of any kind is a criminal offense and that I may be prosecuted and also sued civilly for damages.

I have been advised that management may employ video surveillance systems (both obvious and hidden) and also use investigators in order to monitor cash handling and other behaviors.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_